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S E C R E T SECTION 01 OF 03 TAIPEI 000029

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TAGS: [MASS](#) [MCA](#) [PGOV](#) [TW](#)

SUBJECT: KMT FLEXIBILITY ON ARMS PROCUREMENT: APPEARANCE OR REALITY?

REF: A. 2005 TAIPEI 3284

[B](#). 2005 TAIPEI 4415

[C](#). 2005 TAIPEI 4961

Classified By: AIT Director Douglas Paal, Reason(s): 1.4 (B/D).

[1](#). (C) Summary: In an apparent signal of increasing Kuomintang party (KMT) flexibility on arms procurement, on December 27, KMT Spokesperson Cheng Lee-wen quoted Ma as saying there is now "space" to give the arms issue a "reasonable review" in the Legislative Yuan (LY). Ma pledged the KMT will not oppose the DPP government's plan to increase defense spending to 3 percent of GDP, as long as Taiwan "can afford it." Two Pan-Blue legislators told AIT they believe there can be movement on arms procurement, but not before the LY recesses on January 13. A Pan-Green legislator suggested to AIT that KMT movement on arms sales might involve DPP concessions on some controversial and stalled Control Yuan nominations. End summary.

[2](#). (U) On December 27, KMT Spokesperson Cheng Lee-wen announced that KMT Chairman Ma Ying-jeou supports "reasonable" arms purchases to maintain a "suitable" defense and to demonstrate Taiwan's determination to defend itself. The announcement came after a high-level KMT meeting, during which Ma also announced that the KMT will not oppose increasing the defense budget to 3 percent of GDP, as long as the government "can afford it." During the meeting, Ma remarked that by blocking the Defense Special Budget 42 times, the KMT had saved the government NT\$300 billion, and thereby had created "space" for a reasonable discussion of proposed arms purchases. (Comment: Presumably Ma is referring to the reduction of the Defense Special Budget from the original NT\$601.8 billion (US\$18 billion) to NT\$370 billion (US\$11.6 billion) End Comment.) Ma also said that KMT opposition to both Taiwan independence and the use of force by China against Taiwan, as well as the KMT's continued work toward cross-Strait reconciliation, "create space for reasonable review of arms procurement."

[3](#). (C) KMT legislator and Defense Committee member Su Chi told AIT that this was the first time he had heard Ma express support for a 3 percent of GDP defense budget. Su said Ma wants to make defense spending a higher KMT priority than it was under former Chairman Lien Chan, who had let the matter "drift." He added that Ma was gratified by the positive

public response to his promise to step down if the KMT performed poorly in the December 3 "three-in-one" elections, and is hoping this additional display of leadership on the defense issue will yield a similar boost in public support for him and the KMT. However, Su added, Ma wants to avoid the appearance of "stealing" control of the defense spending issue from the KMT LY caucus and, therefore, has carefully avoided stating a preference for any particular weapons system.

14. (C) Su told AIT he expects to see some progress on the arms procurement and defense budget bills in the coming months, but not before the LY recesses on January 13. He explained that the LY must resolve many Annual Budget questions before the recess, and also address lingering problems associated with establishing the National Communications Commission. Su added that members of the Defense Committee will be visiting Kinmen Island on January 4-5, leaving only the second week of January to hammer out a compromise on the arms procurement bill. Complicating the situation, Su noted, the DPP has been in disarray since the December 3 elections, and DPP legislators have frequently failed to appear for Defense Committee meetings. Su speculated that the Chen government and the DPP will not be prepared to discuss the defense spending issue until after the Chinese Lunar New Year holiday (the week of January 30 - February 3), after the DPP has elected its new Chairman and perhaps after President Chen has overseen a cabinet reshuffle.

15. (S) The Director asked Ma on January 3 how he intends to address the arms sales issue, and Ma referred to the statement that emerged from his meeting with James Soong. In their bargain, Soong got to use his phrase "wastrel spending (kaizi jungou)," but only on condition that Soong agreed to

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include "responsible defense spending." Practically speaking, the KMT plans to organize a series of seminars for caucus members to bring them around to accept the defense budget, and even to accept the goal of 3 percent of GDP. Ma admitted that for some years he has not paid attention to how to manage the LY, and he needs to work on this. He believes it should be possible to achieve an arms sales consensus in the next 2-3 months.

16. (C) People First Party (PFP) legislator and LY caucus leader Daniel Hwang (Yih-jiau) told AIT that the majority of the PFP caucus remain dead-set against the use of any special budget but would agree to put on the LY agenda an "annual" or "regular" defense budget bill that includes the submarines and/or P-3C aircraft. Hwang said that the PFP caucus majority consider the eight submarines in the proposed U.S. arms procurement package to be too many, but would not use that objection to stall full debate. There is little controversy within the PFP over the need for the P-3Cs, said Hwang, but the PFP remains staunchly opposed to considering the purchase of PAC-III missiles until 18 months from now, when the three-year freeze required by the "spirit" of the March 2004 "vetoed" missile referendum expires. (Ref A) The PFP caucus would also likely approve raising the defense budget to 3 percent of GDP, Hwang said, as long as it does not adversely impact Taiwan's education, science, culture, or social welfare budgets. Hwang noted that he has not spoken to PFP Chairman Soong recently and does not know Soong's personal opinions, which could differ; however, Hwang said Soong would have a "difficult time" opposing the majority will of the caucus, and would likely not do so. Hwang remarked that although Chairman Soong still holds a grudge over President Chen's accusation of a secret meeting in the U.S. between Soong and PRC Taiwan Affairs Office Director Chen Yun-lin, the PFP would not let that interfere with progress on the defense spending issue.

17. (C) Hwang told AIT the PFP and KMT caucuses have not discussed the arms procurement issue and have reached no consensus because "the KMT always hides its true colors on

the issue" from the PFP. Hwang said he does not know whether Soong and Ma have reached any kind of agreement but said he does not expect any imminent breakthrough on the arms or defense budget issues because the LY is currently preoccupied with the Annual Budget debate, and there simply is not enough time between now and January 13 to enable legislators to reach an agreement. Hwang told AIT the LY is required by law to approve the annual budget by January 13, 2006, and "extra" budgets can only be submitted to increase funding for items included in the approved annual budget (see Ref B). Thus, only those weapons systems included in the annual budget will be eligible for "extra" budget funding. At present, this includes only the PAC-III missile batteries, whose funding has already been zeroed-out by the Pan-Blues, who refuse to reconsider the missiles until 2008. Hwang said that if the P-3Cs or the submarines are to be purchased this year, they will have to be placed in the annual budget. (Note: General Hu Chen-pu, Director of the Ministry of Defense Political Warfare Department, told the press he opposes including submarines in the annual budget because to do so would displace too many other necessary items. End note.)

18. (S) Speaker Wang Jin-pyng told the Director on December 23 that he is confident an arms package can be passed by March. His notions differ from others now floating in political circles, and may reflect his many contacts with Defense Minister Lee Jye. Wang believes the final package will involve reductions of the package: From eight submarines to six, twelve P-3Cs to eight, and fewer PAC-IIIs after the year-and-a-half waiting period, caused by the failure of the 2004 referendum.

19. (C) DPP Legislator Shen Fa-hui told AIT that when DPP LY members recently temporarily succeeded in bringing the Defense Special Budget to the LY floor (Ref C), the Presidential Office showed no interest in lobbying independent or individual pan-Blue legislators to support moving the Defense Special Budget to the Defense Committee rather than back to the Procedure Committee. Shen suggested that Presidential Office inaction might be a result of

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discussions on the arms procurement issue between President Chen and LY Speaker Wang Jin-pyng, in which Chen may be offering to withdraw some of his controversial and long-stalled Control Yuan nominations in return for KMT movement on arms sales.

Comment

10. (S) All sides have said both privately and publicly that they are prepared to move forward in a responsible way to budget for a stronger Taiwan defensive capability. Beyond the common assertion of commitment, there has been little indication that anyone is seriously prepared to work across party lines to fashion a solution. Ma's recent statements have created the appearance of flexibility and increased his room for future maneuver on the arms sales issue. How far that will go in breaking the deadlock is hard to tell.
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